Budget 2012

Briefing paper from the
Chartered Institute of Housing

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Introduction

This briefing sets out key aspects of the government's Budget for 2012 with particular reference to issues that will be of relevance to housing professionals and the wider housing sector.
The Budget sets out the government's view on the state of the economy and sets the scene for future years. The essence of Budget 2012 is that the economy is still in trouble with a broadly unchanged economic outlook from the November 2011 forecast, although growth forecasts have increased slightly from the November forecast to 0.8 per cent for this year, and growth of 2 per cent is now expected in 2013.

CIH initial view:

The government's overall strategy to achieve strong, sustainable and balanced growth is based on continued squeezing of the public sector and very limited recognition of the role that housing should be playing. The government's own impact assessments show that the Budget is regressive, affecting people on the bottom 30 per cent of incomes very adversely. CIH is particularly concerned that the forecast future growth in benefits expenditure, which would add to borrowing, is likely to result in further welfare cuts rather than being dealt with by tax increases.

CIH will continue to support the sector and provide advice and guidance on a host of housing-related issues. For further information on this briefing or on our other policy and practice work, please contact policyandpractice@cih.org and we will be in touch.

Overview

The economy:

• The independent Office for Budget Responsibility (OBR) has given a broadly unchanged economic outlook for the years ahead.
• OBR expects the economy to avoid a technical recession with positive growth in the first quarter of 2012
• The OBR is forecasting that GDP will grow by 0.8 per cent this year: an upward revision of 0.1 per cent from the November forecast and the same rate as 2011-12
• OBR expects economic growth of 2.0 per cent in 2013-14, picking up to 2.7 per cent in 2014 and 3.0 per cent in 2015-16 and 2016-17
• OBR expects CPI inflation to continue to fall back sharply through the remainder of 2012 from 2.8 per cent this year, and fall further to be close to the 2 per cent target from early 2013.

CIH initial view:

Before the Budget the housing minister was pointing to the beneficial economic effects of housing investment on the economy. Despite this, the extra stimulus to housing investment is minimal (see below). Government could have invested more and reaped the benefit through increased employment and income tax payments, and reduced welfare costs. Despite the rhetoric, it seems unlikely that the Budget measures – taken together with the government's earlier housing strategy – will have a big impact on house building.

Public finances:

• Public Sector Net Borrowing (PSNB) is continuing to fall, broadly as forecast, except there will be a steeper fall this year due to the government taking over the Royal Mail pension fund
• Public sector net debt (PSND) – the total public debt in the economy – is forecast to continue rising as a proportion of GDP, peaking at just over 76 per cent of GDP in 2014-15.

Unemployment/jobs and skills:

• Unemployment has risen in recent months with labour market conditions being particularly poor for younger people
• The claimant count is now forecast to peak at around 1.67 million by the end of 2012, compared to a peak of 1.8 million in the November 2011 forecast
• OBR forecasts unemployment will rise to 8.7 per cent in 2012-13 and fall back to around 6.3 per cent by 2016.The OBR assumption of a structural unemployment rate of around 5.25 per cent throughout the forecast remains unchanged
• The OBR suggests one million more jobs will be created in the economy over five years.

Welfare and benefits:

• From January 2013, child benefit will be withdrawn for households where someone has an income over £50,000 a year. For households where someone has an income between £50,000 and £60,000 the change will apply progressively so that those in which someone earns over £60,000 will receive no child benefit at all
• The council tax rebate for deployed military personnel will be doubled from 50 per cent to 100 per cent
• The government will reform the state pension into a single tier pension for future pensioners at a minimum of £140. The new system will be introduced early in the next parliament and will be set at a level above the means tested standard guarantee credit and all state pension records will be recognised.

A number of previously announced measured are reiterated:

• Local housing allowance rates will be frozen for one year from April 2012

• Housing benefit payments will be reduced for social housing tenants who are under occupying their property from April 2013 – 14 per cent reduction to those under-occupying one bedroom and 25 per cent to those under occupying two or more bedrooms
• £30 million per year is being made available for discretionary payments from 2013-14
• People who lose their job, having previously been employed for at least twelve months, will be exempt from the benefit cap for a period of nine months.

The Treasury also provide some further information on spending and costs associated with welfare and welfare reform:

• There will be a cap on the additional costs of Universal Credit of up to £2.5 billion a year in the next spending review. This is in addition to the £2 billion that was provided in the current spending review for implementation
• The Welfare Reform Act, which introduces reforms to housing benefit and employment and support allowance, and introduces the household cap, is expected to deliver Annually Managed Expenditure (AME) savings of around £4.5 billion in 2014–15
• However a further trade-off will still be required between normal departmental budgets (Departmental Expenditure Limits) and Annual Managed Expenditure (AME), the largest component of which is spending on welfare and benefits. The figures suggest that by 2016-17 further savings of £10.5 billion in AME will be required if there are not to be bigger reductions in departmental spending. The Budget indicates that these savings will be made by further welfare cuts, on top of those already in train.

CIH initial view:

What causes concern is the move to put a cap on the additional costs of universal credit of up to £2.5 billion per year in the next spending review (in addition to £2 billion in this spending review). Does this signal an acknowledgement by government of the complexity and likely unintended consequences of moving to a centralised system from a localised support scheme, which has been developed with a focus on advice and protecting the most vulnerable over a number of years? What will this cap mean for the transition investment needed if welfare reform is to achieve the goals set out by this government?

This Budget also lays the ground for the next spending review (possibly in 2013) by warning of further reforms across public spending and specifically the welfare system, giving an 'illustrative' example of AME savings of £10.5 billion in 2016-17 to achieve the average reductions in DEL this government needs to keep on the right track. In other words the more departments ask for, the more cuts in welfare we will see.

Of significance to thousands of families, households and single parents across the country are the changes to child benefit. We are pleased to see the threshold amended from £42,000 to £50,000 with a gradual withdrawal of 1 per cent of benefit for every additional £100 earned. This is a significant change for single families in particular who will no longer lose all their child benefits once their income hits a certain level. However, we still believe government should have gone further to reduce the anomaly, which leaves a couple able to earn just under £100k between them and keep their entire child benefit, whereas a single person on £50k will lose it. Is this a fair system for single income households?

Taxation:

• Age-related income tax allowances for new pensioners will be removed from April 2013, while allowances of those already of pension age will be frozen until the personal allowance catches up
• From 2014, taxpayers will receive personal statements, detailing what they have paid and where the money is spent
• The 50p rate of income tax for high earners over £150,000 is being reduced to 45p from April next year
• The point at which people start paying income tax will rise to £9,205 from next April
• The government set out its plan to improve the competitiveness of the UK’s corporate tax system. The main rate of corporation tax will fall by 2 per cent from 26 per cent to 24 per cent in April 2012, to 23 per cent in April 2013 and to 22 per cent in April 2014.

Pensions

• Automatic review of state pension age to ensure it keeps pace with increasing life spans
• New single tier state pension for future pensioners to be set at about £140 and based on contributions.

CIH initial view:

Raising the rate at which people start paying income tax will be of benefit to the millions of low earners in this country, however, there are already many people earning less than that amount for whom this will be of no benefit. We are concerned that the HMRC and OBR suggestions that cutting the top rate of tax will cost “just” £100 million to justify the cut to 45p, rather misses the point. A 5p reduction is not an incentive to maintain investors and high earners in this country. Instead, it gives the message that the wealthy can contribute less at a time when the bottom 30 per cent (on the government’s own figures) are suffering considerably.

Housing

The Budget reiterates the actions set out in Laying the Foundations: A Housing Strategy for England published in November 2011: to increase house building, stabilise the housing market and enable more people to own their own homes.

New homeowners

The Budget largely confirms earlier announcements:
• To help buyers into the property market, the mortgage indemnity scheme ‘New Buy' was

launched on 12 March 2012, making mortgages available for people to buy a new home with a 5 per cent deposit. This is expected to support up to 100,000 households. While not aimed at first-time buyers specifically, it is likely to be of most benefit to them. Government and house builders provide security for the loan reducing deposits to the 5 per cent level

• The reinvigorated right to buy increases the discounts available for nearly two million tenants in council housing. The policy replaces the current range of regional caps on discounts with a single higher cap of £75,000 effective from 2 April 2012. The receipts will be used to pay down the outstanding housing debt on the units sold and replace, on a one-for-one basis (in aggregate), the additional properties sold with new affordable homes for rent. This means homes will be replaced across the country rather than necessarily within the region in which they were sold.

CIH initial view:

While the mortgage indemnity scheme 'New Buy' is welcome it has several limitations. It is confined to new houses, and may not work for small house builders. More significantly, in historical terms a majority of first-time buyers have needed greater than a 5 per cent deposit, as shown in the current UK Housing Review.

On right to buy, CIH was hoping for a variable discount rather than a fixed one, and has already raised concerned over the claims that RTB will provide one new affordable rent home for each council house sold. We believe this provision will be difficult to maintain given the fixed discount policy.

Stamp duty reform

• A new, higher rate of Stamp Duty Land Tax (SDLT) of 7 per cent will be introduced on residential properties over £2 million
• A rate of 15 per cent will be applied to residential properties over £2 million purchased by 'certain non-natural persons'. The purpose of this change is to close a loophole whereby properties bought by a company, rather than an individual, paid a lower rate of SDLT or none at all. The government will also consult on creating an annual charge on these properties, which could be implemented in April 2013
• As previously announced, the exemption from SDLT for transfers to registered social landlords will also end from April 2013.

CIH initial view:
The clamp down on stamp duty minimisation by those purchasing larger properties through companies in an effort to avoid personal stamp duty fees is welcomed. The
15 per cent charge on property transfers of £2 million plus homes into corporate ownership and where those properties are in individual ownership – an increase from 5 per cent to 7 per cent - is welcome. However, this is a limited gesture overall – the extra tax on a property sold for £2 million

will only be £40,000, which is not likely to be significant for someone buying property of that value.

Reform of Real Estate Investment Trusts

Real Estate Investment Trusts (REITs) – REITs are tax efficient vehicles that can be used to encourage institutional investors. These are already being reformed to make them more applicable to the residential sector, but government has confirmed it will now consult in 2012 on the role of REITs in supporting investment in the social housing sector. Government will also consult on whether to change the treatment of income received by a REIT when it invests in another REIT. Changes to the REITs will be legislated for to support entry into and investment in REITS through the Finance Bill 2012.

CIH initial view:

We welcome the reference to consulting in 2012 on the role that REITs can play in supporting the social housing sector. Previous attempts have flagged the need for the administrative and tax hurdles to be changed and for margins to be sufficient for a mix of social and market rent portfolios to be considered. The housing sector is good at being innovative and adopting new funding models and we would urge government to continue to involve us in this push for much-needed new sources of finance.

Reform of council housing finance:

The government is implementing reform of the Housing Revenue Account system to give local authorities responsibility for managing their own council housing businesses through a self-financing model from 28 March 2012. According to the OBR, however, HRA reform will increase public borrowing more than originally estimated. While these estimates are very uncertain, the Budget report states quite clearly that if they do not change then the Government will 'take action to address the increase in public debt'.

CIH initial view:

CIH has expressed concern about the apparent equivocation by government on the promises it has made about council housing finance. Grainia Long, chief executive, said: "Ministers stated during the passage of the Localism Bill that, once set these caps wouldn't be changed. The statement made in the Budget today may mean this promise is set to be broken and if so will severely disrupt council plans."

However, CIH advises caution on reacting to the warning in the Budget statement as councils still have clear legal powers to carry through the borrowing permitted under the reformed financial regime. CIH will be working with LGA and CIPFA to clarify the issue with government and of course the aim will be to reaffirm its commitment to the HRA reform arrangements as they currently stand.

Planning

The Budget gives the shape of the final version of the national planning policy framework, and reiterates its purpose as being to support growth. The final NPPF will be published by the end of March 2012. Government will put in place support to help local authorities get pro-growth policies into Local Plans quickly. The Budget reiterates the presumption in favour of 'sustainable development' underpinning local plans and decisions. The NPPF will also localise choice about the use of previously developed land and places more emphasis on statutory consultees to ensure they support the delivery of sustainable development. Further deregulation measures will be announced shortly as will proposals on amending use class orders for buildings.

Government will publish a consultation on stalled development sites and bring forward pilots of land auctions of public sector land – with the aim of having two sites ready for market by the end of 2012. Government has identified sufficient land to meet its ambition to dispose of land sufficient to build over 100,000 homes and support up to 25,000 jobs by April 2014. Government will publish a progress report on the accelerated release of public sector land before summer 2012.

CIH initial view:

Many of these measures have previously been announced. The NPPF is listed within the government's economic reforms under the heading 'best place for business', which does not give the message that it is really about homes or sustainable development. This shorter, more focused, and pro-growth NPPF will be launched. Its focus is mainly on reducing burdens on developers and for major infrastructure but also implementing the Penfold Review – reforms to the key consenting and advisory agencies to give certainty to developers including ensuring they adhere to a 13-week maximum timescale for most non-planning consents. This is extremely difficult when agencies are often coping with spending and staffing cuts.

Get Britain Building investment fund

Following a strong response from the housing sector, the Get Britain Building Fund was increased by a further £150 million, to £570 million on 19 March 2012 in an announcement by David Cameron. The fund provides commercial loans and takes equity stakes in new housing developments to kick start developments that have stalled for financial reasons and to help bring forward marginal sites by sharing risk. This additional funding has already been allocated by the Homes and Communities Agency who has now shortlisted 224 schemes that will be invited to take part in the funding. It is anticipated that this will deliver at least an extra 3,000 new homes taking the total under this scheme to 15,000 new homes.

CIH initial view:

A welcome development but with limited overall impact, as can be seen from the forecasts.

Environmental measures:

The government is seeking "major savings" in the administrative cost of the Carbon Reduction Commitment, and will bring forward an alternative environmental tax this autumn if such savings cannot be found.
The government will "rationalise" environmental regulation to reduce costs to business by at least £1 billion over five years without reducing environmental protections, including introducing new contaminated land guidance in April 2012, which will save business £140 million per year

CIH initial view:

The Budget is a missed opportunity to give a further stimulus to green investment and make progress towards the government's own carbon reduction targets. Instead, there is only a reiteration of existing schemes such as the Green Deal and no stimulus towards greater investment in retrofitting the existing housing stock, for example through VAT cuts on energy-efficiency measures. Instead, government is concentrating on deregulation, which, despite promise, may well undermine its carbon targets, as well as leading to other environmental problems.

Further reading:

- Grainia Long's blog for The Guardian Housing Network
- CIH's press release on HRA reform.
- CIH's Budget blog
- CIH's web page on government spending
- CIH's Housing Strategy briefing
- UK Housing Review
- Inside Housing coverage
- Housing benefit calculator
- CIH's welfare reform services

About CIH

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities.
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